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RUEHDO/AMEMBASSY DOHA 1474
RUEHNE/AMEMBASSY NEW DELHI 2659
RUEHKA/AMEMBASSY DHAKA 2250
RUEHLM/AMEMBASSY COLOMBO 1463
RUEHLO/AMEMBASSY LONDON 7067
RUEHML/AMEMBASSY MANILA 2918
RUEHKP/AMCONSUL KARACHI 8652
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SUBJECT: ECONOMIC EFFECTS OF RECENT VIOLENCE IN PAKISTAN

REF: 07 Islamabad 5328

¶1. This cable was coordinated with Consulates Karachi, Lahore and Peshawar.

Summary

¶2. (SBU) Summary: The violence following Benazir Bhutto's December 27 assassination cost Pakistan approximately \$2 billion dollars in lost tax revenue, foregone production, and infrastructure damage. In addition, there was some U.S. \$5.66 billion in capital outflows, not all of which has returned. Some U.S. company facilities suffered damage, mostly in Karachi and Hyderabad. 18 Narcotics Assistance Unit (NAS)-purchased vehicles destined for the Frontier Corps were heavily damaged while en route from Karachi to Peshawar. While the physical damage is considerable but not overwhelming, the damage to Pakistan's investment climate reputation is likely to last longer. End summary.

Violence following Bhutto's suicide costs almost \$2 billion

¶3. (SBU) The December 27 assassination of former Prime Minister Benazir Bhutto and ensuing violence has cost the country Rs.115-120 billion (\$1.92 - \$2 billion), including Rs.35 billion (\$583 million) in lost revenues. Rs.64 billion (\$1.06 billion) is lost production because of factory and shop closures, and the remainder is the damage to infrastructure, including damage to bank branches, government offices and railway tracks.

¶4. (SBU) Damage to the railways is estimated at 12.3 billion rupees (\$201 million), while Rs. 20 billion (\$333 million) was lost in bank looting and destruction and 6,000 vehicles were destroyed. Wholesale and retail business losses are estimated at Rs. 10-12 billion (\$166 million to \$200 million). In addition, Finance Ministry officials estimate that Rs 340 million (\$5.66 million) in capital outflows during the four days following the assassination. There was a net portfolio capital outflow of \$40.1 million during the period January 1-8. The GoP also expects a dip in both exports and imports for the month of December due to port closings.

¶5. (SBU) The recent violence has also taken its toll on tax collection. According to Dr. Ashfaq Khan, Advisor to the Minister of Finance, the Federal Board of Revenue is unlikely to meet its revenue target of Rs.1025 billion (\$17 billion). Business closures during the historically high tax collection month of December will make meeting the revenue target difficult.

Some U.S. Companies hit by violence; NAS vehicles also damaged

¶6. (SBU) U.S. companies did not escape the violence, although we have no evidence that American firms were specifically targeted. Karachi was particularly hard-hit. Kentucky Fried Chicken lost four outlets, which were initially looted and then burned down completely. There was no loss of life, and no staff was present. Only Sindh restaurants were affected. Pizza Hut's and McDonald's Hyderabad restaurants were also burned. 25 of Chevron's retail outlets (Caltex) sustained damages, but no injuries were reported. Only outlets in Sindh were damaged.

¶7. (SBU) Colgate-Palmolive's detergent and toothpaste factory was looted and burned the morning of December 28. Police and fire assistance did not arrive until after 6 pm that evening. The 12 security and other staff present sustained minor injuries. Colgate-Palmolive does not expect to resume normal operations until sometime in March. The Bristol-Myers Squibb (BMS) head office outside Karachi was attacked by mobs December 27 and 28; damage, however, was relatively minor. Singer's shop and factory outside Karachi was attacked, looted, and burned by a mob December 27. Despite a lack of a response from the law enforcement and fire authorities, the factory was saved.

¶8. (SBU) Of 18 new Narcotics Assistance Unit (NAS) vehicles destined for the Frontier Corps, five were destroyed, and the rest were badly damaged. All of the vehicles were seriously vandalized, but NAS is working with local Toyota vendors to determine if repairs will be cost effective.

¶9. (SBU) Commercial facilities in the Punjab were largely undamaged since violence in this province was limited largely to attacks on election posters and offices of PML-Q. A handful of

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local stores suffered some damage in Lahore, but most of the damage was cosmetic, and the small traders have since reopened. None of the American business community has reported damage to their Punjab facilities. Economic losses in the Punjab result from the three days that businesses were completely shut down and the loss in investor confidence (plus losses on the Karachi stock exchange). Punjab based businesses with branches, offices, and facilities in Sindh claimed heavy damage to facilities there. Nobody, however, has suggested an ethnic tinge to the attacks - despite political claims to the contrary.

¶10. (SBU) Damage in the Northwest Frontier Provinces was limited, with only the Sarhad Chamber of Commerce sustaining broken windows. There were no reports of U.S. facilities damaged.

Comment

¶11. (SBU) Comment: While damage to infrastructure, particularly for power generation and gas distribution (septel), was considerable, the real impact of the violence following Bhutto's assassination is likely to be more long-term. While the GOP had difficulties sticking to its fiscal targets prior to these incidents (reftel), it will have even greater difficulties now, once the costs of foregone tax revenue and infrastructure repairs are included. However, the most lasting cost may be the damage to Pakistan's investment climate and increased loan and bond costs as several of the rating agencies are reportedly considering further downgrades to Pakistan's credit rating.

¶12. (SBU) The Pakistan People's Party (PPP) is publicly alleging that the government is arresting its party members on charges of complicity in the violence and damage. PPP leaders have responded that looters and other criminals should be brought to justice, but that PPP members were not responsible for the damage. Ruling political party members counter that their property was targeted in politically motivated attacks by PPP members. With emotions over Bhutto's assassination still running high in the midst of an election campaign, it will be extremely difficult to sort out these charges and counter-charges. End comment.

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